

**REPORT OF THE AUDIT OF THE
WHITLEY COUNTY
SHERIFF**

**For The Year Ended
December 31, 2011**



**ADAM H. EDELEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE WHITLEY COUNTY SHERIFF

**For The Year Ended
December 31, 2011**

The Auditor of Public Accounts has completed the Whitley County Sheriff's audit for the year ended December 31, 2011. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$22,098 from the prior year, resulting in excess fees of \$154,963 as of December 31, 2011. Revenues increased by \$104,469 from the prior year and expenditures increased by \$82,371.

Report Comment:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

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ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Colan Harrell, Whitley County Sheriff
Members of the Whitley County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees -regulatory basis of the Sheriff of Whitley County, Kentucky, for the year ended December 31, 2011. This financial statement is the responsibility of the Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2011, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 21, 2012 on our consideration of the Whitley County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Colan Harrell, Whitley County Sheriff
Members of the Whitley County Fiscal Court

We also present the accompanying comment and recommendation, included herein, which discusses the following report comment:

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Whitley County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Adam H. Edelen", with a long horizontal flourish extending to the right.

Adam H. Edelen
Auditor of Public Accounts

August 21, 2012

WHITLEY COUNTY
COLAN HARRELL, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2011

Revenues

Federal Grant -		
U.S. Department of Agriculture	\$ 1,331	
U.S. Corps Of Engineers	3,400	\$ 4,731
State - Kentucky Law Enforcement Foundation Program Fund (KLEFPF)		32,731
State Fees For Services:		
Finance and Administration Cabinet	44,694	
Cabinet for Health and Family Services	2,832	
Sheriff Security Service	20,576	68,102
Circuit Court Clerk:		
Fines and Fees Collected	3,687	
Court Ordered Payments	2,015	5,702
Fiscal Court:		
Contributions	536,092	
Juvenile Transports	19,092	
Fiscal Court Postage	190	555,374
County Clerk - Delinquent Taxes		75,357
Commission On Taxes Collected		300,071
Fees Collected For Services:		
Auto Inspections	12,130	
Accident and Police Reports	2,433	
Serving Papers	55,790	
Carrying Concealed Deadly Weapon Permits	11,085	81,438
Other:		
Transports	6,685	
School Deputy	53,208	
Tax Penalty - 10%	35,638	
Miscellaneous	2,657	98,188
Interest Earned		1,786
Borrowed Money:		
State Advancement		247,741
Total Revenues		1,471,221

The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY
 COLAN HARRELL, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$	471,445
Kentucky Law Enforcement Foundation Salaries		27,769
Overtime		4,701

Employee Benefits-

Employer's Share Social Security		31,881
Employer's Share Retirement		34,511
Employer's Share Hazardous Duty Retirement		60,092
Employer Paid Health Insurance		62,877
Employer Paid Dental		3,377
Employer Paid Life and Vision		817

Contracted Services-

Advertising		514
Transports		1,826
Training /Certification		4,475
Cleaning Services		744

Materials and Supplies-

Office Materials and Supplies		8,387
Uniforms		20,651
Deputy Equipment		17,193
Guns and Supplies		2,251
Evidence Supplies		1,173
Radio / Camera / Supplies		2,679
Prisoner Blood Kits		414

Auto Expense-

Gasoline		82,745
Vehicle Maintenance and Repairs		30,902

Other Charges-

Conventions and Travel		1,492
Cell Phone		486
Dues		1,542
Postage		1,937
Insurance		470
Bond		236
Jurors Food Expense		95
Miscellaneous		10,349

The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY
 COLAN HARRELL, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2011
 (Continued)

Expenditures (Continued)

Operating Expenditures and Capital Outlay: (Continued)

Capital Outlay-			
Office Equipment	\$	13,990	
Vehicles		31,915	
Equipment for Vehicles		<u>20,862</u>	\$ 954,798
Debt Service:			
State Advancement		247,741	
Leased Vehicles		<u>33,718</u>	<u>281,459</u>
Total Expenditures			<u>\$ 1,236,257</u>
Net Revenues			234,964
Less: Statutory Maximum			<u>80,001</u>
Excess Fees Due County for 2011			154,963
Payments to Fiscal Court - February 9, 2011		28,134	
January 17, 2012		74,000	
March 15, 2012		<u>47,655</u>	<u>149,789</u>
Balance Due Fiscal Court at Completion of Audit			<u>\$ 5,174</u>

The accompanying notes are an integral part of this financial statement.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2011

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2011 services
- Reimbursements for 2011 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2011

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WHITLEY COUNTY
 NOTES TO FINANCIAL STATEMENT
 December 31, 2011
 (Continued)

Note 2. Employee Retirement System

The county official and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 6 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 16.93 percent for the first six months and 19.55 percent for the last six months.

Hazardous covered employees are required to contribute 8 percent of their salary to the plan. Hazardous covered employees who begin participation on or after September 1, 2008 are required to contribute 9 percent of their salary to be allocated as follows: 8% will go to the member's account and 1% will go to the KRS insurance fund. The county's contribution rate for hazardous employees was 33.25 percent for the first six months and 35.60 percent for the last six months.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55. For hazardous employees who begin participation on or after September 1, 2008 aspects of benefits include retirement after 25 years of service or the member is age 60, with a minimum of 60 months of service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

Years of Service	% paid by Insurance Fund	% Paid by Member through Payroll Deduction
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 2. Employee Retirement System (Continued)

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Hazardous employees whose participation began on or after July 1, 2003, earn fifteen dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment, which is updated annually due to changes in the Consumer Price Index.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Whitley County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Whitley County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2011, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease

On June 30, 2011, the Whitley County Fiscal Court entered into an agreement with Kentucky Association of Counties in the amount of \$98,100. The funds were used to purchase four (4) vehicles for the Whitley County Sheriff's Office. According to the terms of the agreement the Whitley County Sheriff is responsible for making the principal and interest payments. Interest rates vary and are paid monthly. Principal payments are due on December 20th of each year to be completed on December 20, 2013. The total principal outstanding as of December 31, 2011 was \$66,798.

WHITLEY COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2011
(Continued)

Note 5. Donation Account

The Sheriff received several donations from non-governmental agencies during 2011 which was carried over to the 2012 calendar year. In 2011, the Sheriff received the following from various local businesses:

- Guns and equipment for the deputies valued at \$11,645.
- Office supplies and equipment valued at \$4,625.
- Vehicles and equipment valued at \$4,600.
- \$4,500 toward the purchase and training of a police K-9.
- \$2,200 for the general purpose of the Sheriff's office

The Sheriff did establish a separate bank account for these donations on January 10, 2011. Total receipts and expenditures, respectively, were \$6,701 and \$6,541. The balance of the account as of December 31, 2011 was \$160.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



ADAM H. EDELEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Pat White, Jr., Whitley County Judge/Executive
The Honorable Colan Harrell, Whitley County Sheriff
Members of the Whitley County Fiscal Court

**Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Whitley County Sheriff for the year ended December 31, 2011, and have issued our report thereon dated August 21, 2012. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the Whitley County Sheriff's office is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying comment and recommendation, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comment and recommendation as item 2011-01 to be a material weakness.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Whitley County Sheriff's financial statement for the year ended December 31, 2011, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Whitley County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Adam H. Edelen
Auditor of Public Accounts

August 21, 2012

COMMENT AND RECOMMENDATION

WHITLEY COUNTY
COLAN HARRELL, SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2011

INTERNAL CONTROL - MATERIAL WEAKNESS

2011-01 The Sheriff's Office Lacks Adequate Segregation Of Duties

During our review of internal controls, we noted the Sheriff has a lack of segregation of duties. The sheriff's bookkeeper receives revenues as well as prepares deposits, record disbursements, reconcile reports, and post adjustments to the ledger.

Due to an entities small size and budget restrictions an official may have limited options for establishing adequate segregation. In such cases, compensating controls should be implemented. A compensating control is a control that limits the severity of an internal control deficiency and prevents it from rising to the level of a significant deficiency or a material weakness. The Sheriff has implemented compensating controls to offset the lack of adequate segregation of duties in his office. However, these controls are not sufficient to offset the material weakness.

To adequately protect against misappropriation of assets and/or inaccurate financial reporting, the Sheriff should separate the duties involving the posting of transactions to the ledgers and preparing financial reports. If, due to a limited number of staff, that is not feasible, strong oversight over these areas should occur and involve an employee not currently performing any of those functions. Ideally, the Sheriff should provide this oversight. If the Sheriff does implement additional compensating controls, these should be noted on appropriate source documentation.

Sheriff's Response: None.

